

Unofficial Translation

BANK INDONESIA REGULATION
NUMBER 8/22/PBI/2006

CONCERNING

MINIMUM CAPITAL ADEQUACY REQUIREMENT
OF SHARIA RURAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering:
- a. whereas the efforts to create sharia rural banks which may develop the business shall be supported by a sound capital structure corresponding with characteristics of sharia rural banks;
 - b. whereas pursuant to the consideration set forth in letter a, it is necessary to enact provisions concerning minimum capital adequacy requirement of sharia rural banks in a Bank Indonesia Regulation.

- In view of :
- 1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement of the State Gazette of the Republic Indonesia Number 3472) as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of

1998, ...

- 2 -

1998, Supplement of the State Gazette of the Republic of Indonesia Number 3790);

2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);

HAS DECREED :

To enact : BANK INDONESIA REGULATION CONCERNING
MINIMUM CAPITAL ADEQUACY REQUIREMENT OF
SHARIA RURAL BANKS

CHAPTER I

GENERAL PROVISIONS

Article 1

Sharia Rural Bank, hereinafter referred to as SRB, is a rural bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 conducting business based on sharia principles.

CHAPTER II ...

CHAPTER II

CAPITAL ASPECT

Article 2

SRB is required to set aside a minimum capital at 8% (eight percent) of risk weighted assets.

Article 3

- (1) Minimum capital as referred to in Article 2 comprises :
 - a. tier 1 capital; and
 - b. tier 2 capital
- (2) Tier 2 capital as referred to in paragraph (1) letter b may be calculated at a maximum of 100% (one hundred percent) of tier 1 capital.

Article 4

- (1) Tier 1 capital as referred to in Article 3 paragraph (1) letter a consists of :
 - a. paid up capital;
 - b. share agio;
 - c. capital deposit fund;
 - d. donated capital;
 - e. general reserves;
 - f. designated reserves;
 - g. retained profits after tax;
 - h. previous year's profits after tax;
 - i. current year's profits after estimated tax and deficits in allowances for earning assets losses at a maximum of 50% (fifty percent).

(2) Tier 1 ...

- (2) Tier 1 capital as referred to in paragraph (1) shall be deducted by the following subtracting items :
- a. goodwill;
 - b. disagio;
 - c. previous year's losses;
 - d. current year's losses.
- (3) Deferred tax shall be excluded in calculating current year's profits/losses as referred to in paragraph (1) and (2).

Article 5

Tier 2 capital as referred to in Article 3 paragraph (1) letter b comprises :

- a. increment from revaluation of fixed assets;
- b. general reserves from allowances for earning assets losses at a maximum of 1.25% (one point twenty five percent) of risk weighted assets;
- c. loan capital (quasi capital), namely a loan supported by instrument or bill, meeting requirements :
 1. based on *qardh* principle;
 2. not guaranteed by issuing SRB, treated the same as capital, and has been paid up in full;
 3. may not be repaid or withdrawn at the initiative of the holder without approval of Bank Indonesia; and
 4. has the same standing as a capital in the event that SRB's losses exceed the balance of profits and reserves including tier 1 capital notwithstanding the bank has not been liquidated.
- d. subordinated investment at a maximum of 50% (fifty percent) of tier 1 capital is subject to requirements as follows :
 1. based on *mudharabah* or *musyarakah* principles;

2. existence ...

2. existence of a written agreement between SRB and investor;
3. has prior approval of Bank Indonesia. In this case, upon submission of the approval, SRB must include the repayment program of the subordinated investment;
4. not guaranteed by the concerned SRB and has been paid up in full;
5. a minimum tenor of 5 (five) years;
6. repayment prior to maturity shall have a prior approval of Bank Indonesia and after this repayment SRB capital remains sound; and
7. in the event of liquidation, its right of claim shall be the last priority after all existing borrowings (same status as a capital).

Article 6

SRB is prohibited to carry out distribution of capital or profits if it causes SRB fail to reach its capital ratio as referred to in Article 2.

CHAPTER III

RISK ASPECT IN PROVISION OF FUND

Article 7

Risk weighted assets as referred to in Article 2 comprise :

- a. Balance sheet assets which are weighted based on risk degree of provision of fund or claims adhering to each assets item;
- b. Certain items in the list of commitment and contingency requirements (off-balance sheet account) which are weighted and based on risk degree of provision of fund or claims adhering in each item after calculated by conversion factor weight.

CHAPTER IV ...

CHAPTER IV

REPORTING

Article 8

- (1) SRB is required to report its calculation upon minimum capital adequacy requirement referring to this stipulation on monthly basis in the format as stipulated by Bank Indonesia.
- (2) The report as stipulated in paragraph (1) shall be submitted to Bank Indonesia no later than the 21st of the following month of the concerned reporting month.
- (3) SRB is declared late in reporting its minimum capital adequacy requirement if the report is submitted after the 21st of the following month as referred to in paragraph (2) up to the end of month.
- (4) SRB is declared not reporting its minimum capital adequacy requirement if Bank Indonesia has not received the report on calculation upon minimum capital adequacy requirement up to its due date as referred to in paragraph (3).
- (5) The report shall be submitted to Bank Indonesia with the following address.
 - a. For SRB with head office located in the working area of Bank Indonesia Head Office, the report shall be submitted to the Directorate of Sharia Banking, Jl. M.H. Thamrin No. 2, Jakarta 10110; or
 - b. For SRB with head office located outside the working area of Bank Indonesia Head Office, the report shall be submitted to local Bank Indonesia Regional Office.

CHAPTER V ...

CHAPTER V

SANCTIONS

Article 9

- (1) Violation of stipulation as referred to in Article 2 and/or Article 6 shall be liable to administrative sanctions as referred to in Article 52 Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 in the forms of :
 - a. written warning; and/or
 - b. downgrading in the rating and a follow-up treatment on the SRB in the status of special mention.
- (2) Violation of stipulation as referred to in Article 8 paragraph (3) and paragraph (4) shall be liable to an administrative sanction as referred to in Article 52 Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 in the form of written warning.

CHAPTER VI

CONCLUDING PROVISIONS

Article 10

Further provisions concerning the implementation of this Bank Indonesia Regulation shall be stipulated in Bank Indonesia Circular Letter.

Article 11

With the enforcement of this Bank Indonesia Regulation, Bank Indonesia Board of Directors Decree Number 26/20/KEP/DIR dated May 29, 1993,

concerning ...

- 8 -

concerning Minimum Capital Adequacy Requirement is revoked and declared no longer valid.

Article 12

This Bank Indonesia Regulation shall come into force on January 1, 2007.

Enacted in : Jakarta

Date : October 5, 2006

GOVERNOR OF BANK INDONESIA,

BURHANUDDIN ABDULLAH

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 79 OF
2006

DPbS

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER 8/22/PBI/2006
CONCERNING
MINIMUM CAPITAL ADEQUACY REQUIREMENT
OF SHARIA RURAL BANKS

GENERAL REVIEW

Capital is one of key indicators of SRB's capacity either in the conduct of daily business or in the development of future business. In this relation, it is necessary to enact specific provisions concerning the minimum capital to be maintained by SRB in order to anticipate risks for business sustainability and development.

ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2

Self-explanatory.

Article 3

Paragraph (1)

Self-explanatory.

Paragraph (2) ...

Paragraph (2)

Self-explanatory.

Article 4

Paragraph (1)

Letter a

Paid up capital is defined as a capital which has really and effectively paid up by the holder and has been approved by Bank Indonesia.

For SRB legally incorporated as a Cooperative, paid up capital comprises principal deposit, statutory deposit, and grant as referred to in stipulations on cooperatives.

Paid up capital components shall not include subscribed capital stock originating from shareholders' claims as referred to in applicable Statements of Financial Accounting Standard concerning Equity.

Letter b

Share agio is an increment of additional capital received by SRB due to higher price of share than its nominal value.

Letter c

Capital deposit fund is defined as a fund which has been paid up in full to add the capital but has not been supported by complete requirements to be eligible for a paid up capital, such as implementation of shareholder general meeting or legalization of statutes by authorized institution. In order to be eligible for a capital deposit fund the fund must be placed in a special account (escrow account) and may not be

withdrawn ...

withdrawn by shareholder. Any withdrawal of fund from the escrow account must be under Bank Indonesia approval.

In the event that capital deposit fund originates from prospective SRB owner, and according to Bank Indonesia the prospective SRB or fund owner fails to meet requirements as a share- or capital holder, the fund may not be able to be considered as a component of capital, and may not be able to be withdrawn by the prospective owner.

Letter d

Self-explanatory.

Letter e

General reserves are reserves derived from retained profits or profits after tax and approved by shareholder general meeting or member meeting in accordance with applicable laws and regulations.

Letter f

Designated reserves are defined as a part of profits after tax set aside for a specific objective and has been approved by shareholder general meeting or member meeting in accordance with applicable laws and regulations.

Letter g up to i

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Deferred ...

Deferred tax is a transaction occurring as a result of the application of Statements of Financial Accounting Standard concerning Income Tax Accounting.

With the exclusion of the impact of deferred tax from the calculation of profits/losses, deferred tax assets is not calculated in risk weighted assets by adding risk weight to it at 0% (zero percent).

Article 5

Self-explanatory.

Article 6

Distribution of capital or profits includes but not limited to conversion of reserves (general or designated) to payments of dividend and/or bonus to the management (management fee).

In the event that in a management period SRB shows improvements in its performance but the capital condition does not enable it to pay bonus to the management (management fee), the bonus payment may be delayed until SRB's capital condition reaches the capacity.

Article 7

Conversion factor weight is a weight set on commitment and contingency requirements that it may be treated the same as a balance sheet assets.

Article 8

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory ...

Self-explanatory.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 9

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 10

Self-explanatory.

Article 11

Self-explanatory.

Article 12

Self-explanatory.